



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

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TO: Participating Schools and Lenders

FROM: Diane Todd Sprague, Director 

DATE: December 15, 2006

SUBJECT: Educational Loan Notes

*Happy Holidays*

*from*



*MGA*



INSIDE THIS ISSUE



Default Aversion Symposium II..... Page 2  
2006 Fall School Workshop Recap ..... Page 3  
Schools - Form 1098-T Reporting ..... Page 4  
MYF Offers Grad PLUS Exit Counseling.. Page 5  
MYF FAO Access Area  
Passwords may be Expiring..... Page 5  
IVR System Provides Convenience  
to Borrowers..... Page 6  
Paying for College in Michigan  
Available on the Web..... Page 6

High School Counselor  
Video Conference ..... Page 7  
Consolidation Loan Issues..... Page 7  
"ED" Pipeline ..... Page 7  
Lender List Updates ..... Page 8  
School List Updates ..... Page 8  
"Q" and "A" ..... Page 9  
Calendar of Upcoming Events..... Page 11

**DEFAULT AVERSION SYMPOSIUM II**

“Getting Help to Those Who Need It Most” was the focus of the Michigan financial aid community as they participated in the second installment of the Michigan Guaranty Agency (MGA) sponsored Default Aversion Symposium Series that was held on November 21, 2006. Methodologies, research, and exploration were the topics that addressed ways to help prevent student loan defaults.

Federal Student Aid launched a statewide default prevention project to engage schools, lenders, and guarantors to develop or enhance default prevention activities. Justin Draeger, Assistant Director of Communications, National Association of Student Financial Aid Administrators (NASFAA), espoused excitement on how to use research tools to develop and analyze data in a timely, cost-effective, and efficient manner.



Justin Draeger (right) uses symposium participants to demonstrate current default trends.

Research is the simple act of carefully observing some thing, situation, or phenomenon in order to learn more about it and better understand it. Research data collected over time can provide a rich source of information to help tailor services to students or alert you to a potential problem. Justin provided basic information on how to:

- Start research projects.
- Find and collect research data.
- Analyze data.
- Publicize results.

Dr. Sandy Baum, Professor of Economics, Skidmore College, and Senior Policy Analyst at the College Board, provided valuable information on whether students are “Drowning in Debt or Investing in the Future.” Recognizing that the gap between



Sandy Baum addresses the issue of the increasing debt load of student borrowers.

grants and student loans is widening each year, it is imperative that the financial aid community provide debt management information to students. Dr. Baum emphasized the need to look at “how much debt is too much” and the policy changes needed to assist borrowers.

In one breakout session, Jennell Floyd, Operations Supervisor, Debt Management, Student Assistance Corporation, addressed the need for schools to develop a default aversion action plan. Financial literacy training should be integrated into the financial aid process to educate borrowers. With limited time and resources, the financial aid office will need to “think outside the box” and develop innovative ways to educate students. Several ideas were discussed:

- Use College TV through Comcast Cable Company and have certain programs played in the Student Center.
- Provide “house calls” to undergraduate freshmen to see how they are adjusting to college life.

*(Continued on the next page.)*

- Create a video game containing financial literacy information.
- Add a scrolling bar on your Web site with consumer information tips.

A four-step [Action Plan for Default Aversion](#) was included in the symposium manual. MGA school representatives are available to discuss this action plan with you to see how it can enhance your current default aversion activities. Please contact your school representative if you would like to take advantage of this opportunity.



Participants take in the valuable information presented at the symposium.

In a second breakout, Justin Draeger led a lively discussion on “How to Conduct a Research Project.” Key points included:

- What questions do you have about your student population?
- How do you obtain data that answers these questions?
- How do you best use this information?

Notes from the breakout sessions will soon be available on the [mgaloan.com](http://mgaloan.com) Web site following links from the [Default Aversion Symposium Series](#) page. Speaker presentations are available, and video from the presentation will be available shortly.

Extensive studies on student populations have been conducted by several different entities which will give you an insight into your students. Additional information may be obtained by visiting [mgaloan.com](http://mgaloan.com) and clicking on *Financial Aid Professionals*, *Default Aversion and Student Retention*, then [Default Aversion Resources Database](#) for

studies, datasets, and other useful information on student defaults. MGA plans to host two additional Default Aversion Symposia in 2007.

We still have symposium manuals available. If you would like one, please contact Stacy Cardwell in the School Services Unit at extension 1-800-642-5626, extension 36074, or via email at [cardwells@michigan.gov](mailto:cardwells@michigan.gov).

### **SCHOOLS HEAR THE LATEST AT MGA'S 2006 FALL SCHOOL WORKSHOPS**

MGA conducted its 2006 Fall School Workshops on November 15 and 16 in Livonia and Grand Rapids, respectively. Ninety-nine participants from 48 schools listened as Peggy “Peg” Creech, Financial Aid Consultant for Sallie Mae Guarantee Services, presented valuable information on:

- Federal policy and regulatory updates.
- New federal program requirements for SMART and ACG recipients.
- Calculating EFC case studies.
- Doing more with less in the financial aid office.
- Identity theft and institutional policy.

The two new grant programs for Pell Grant-eligible undergraduates were discussed in detail.

#### **Academic Competitiveness Grant**

First-year undergraduates who complete a “rigorous” high school curriculum are eligible for \$750. During the second year, students may receive up to \$1,300.

#### **National SMART Grant Program**

Allows third- and fourth-year undergraduates majoring in math, science, technology, engineering, or critical foreign languages to receive up to \$4,000. A 3.0 coursework Grade Point Average (GPA) is required.

*(Continued on the next page.)*

The U.S. Secretary of Education annually recognizes at least one rigorous secondary school program of study for each state. The recognized program of study for Michigan for the 2006-07 award year was shared with participants and is attached to this issue of *Educational Loan Notes*. Programs for all states are available on the Federal Student Aid (FSA) Web site at [www.ed.gov/admins/finaid/about/ac-smart/state-programs06.html](http://www.ed.gov/admins/finaid/about/ac-smart/state-programs06.html).

The following MIFINAID listserv posting dated November 22, 2006, was provided by Jamie Malone, U.S. Department of Education (ED) Training Officer, and helped clarify GPA requirements for the Academic Competitiveness Grant.

*I have received questions concerning ACG and the GPA requirement. It appears that there may be some confusion, so I thought I'd try to help.*

*For a first academic year ACG award, there is no GPA requirement. As long as the student meets the Pell recipient in award year, U.S. citizen full-time, rigorous high school curriculum requirements, the student is eligible for the first year award. There is no specific GPA required to receive the disbursements for the first academic year award.*

*In order for a student to receive an ACG for the second academic year, the student must have a cumulative GPA of at least 3.0 at the conclusion of the student's first academic year. Remember that academic year progression for ACG may not correspond to your grade level progression, or to the increment at which you check satisfactory academic progress. It is possible that a student may progress from first academic year to second academic year at the end of any term, fall, winter, spring, or summer. At the point that the student progresses to the second academic year, you must check the cumulative GPA to determine the student's eligibility for the second academic year award. That is a one-time check . . . you are concerned only with the cumulative GPA at the point that the student has completed the first academic year. If the GPA falls during the second academic year, that does not affect the student's*

*eligibility for the remaining disbursements of the second year award.*

*SAP is a different issue. You must check a student's satisfactory academic progress at least once a year. Some of you may do it every term, some only once a year. That is still a Title IV requirement, and the GPA check for ACG does not replace that.*

*I hope this is helpful. Please let me know if you have any questions.*

Jamie A. Malone  
Training Officer  
U.S. Department of Education  
111 N. Canal Suite 830  
Chicago, IL 60606  
312-886-8731

Other items discussed included:

ED issued Dear Colleague Letter (DCL) [GEN-06-16](#) that announced the release of the enhanced FSAPubs Web site. DCL [GEN-06-17](#) gives guidance to schools who offer distance education programs regarding accreditation, and DCL [GEN-06-18](#) provides guidance to institutions concerning how to implement the "academic year" definition within the ACG and National SMART Grant programs for the 2006-07 and 2007-08 award years.

There are a limited number of workshop manuals and copies of the Dear Colleague Letters available for those who were unable to attend. If you would like them, please contact Stacy Cardwell in the School Services Unit at extension 36074 or via email at [cardwells@michigan.gov](mailto:cardwells@michigan.gov).

### **SCHOOLS – FORM 1098-T REPORTING**

This is a reminder to schools that they are required by federal law to report financial transactions for each student enrolled to the IRS by February 28, 2007 (March 31, 2007, if filed electronically; schools with more than 250 students must file electronically). ***This reporting must include a statement to the***

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*student by January 31, 2007.* Schools must report such items as qualified educational expenses (tuition, fees, etc.), scholarships, and adjustments on Form 1098-T. A copy of Form 1098-T may be accessed at: <http://www.irs.gov/pub/irs-pdf/f1098t.pdf>.

Eligible educational institutions must file for each enrolled student and for whomever a reportable transaction is made. In addition, reimbursement or refunds of qualified tuition and related expenses must be reported. For more information about the requirements to furnish a statement to each student, see part M in the 2007 General Instructions for Forms 1099, 1098, 5498, and W-2G.

Schools are **not** required to file Form 1098-T or furnish a statement for:

- Courses for which no academic credit is offered, even if the student is otherwise enrolled in a degree program;
- Non-resident alien students, unless requested by the student;
- Students whose qualified tuition and related expenses are entirely waived or paid entirely with scholarships; and
- Students for whom you do not maintain a separate financial account and whose qualified tuition and related expenses are covered by a formal billing arrangement between an institution and the student's employer or a governmental entity such as the Department of Veterans Affairs or the Department of Defense.

Schools should note that penalties may be imposed for failure to file or failure to furnish correct 1098-T forms. These penalties may be waived, however, under certain circumstances. Instructions and additional information regarding form 1098-T are available on the IRS Web site at: <http://www.irs.gov/instructions/il1098et/index.html>. For questions regarding form 1098-T, schools should contact Nancy Vaughn at extension 31871 or via email at [vaughnn@michigan.gov](mailto:vaughnn@michigan.gov).

### **MAPPING YOUR FUTURE INTRODUCES GRAD PLUS LOAN EXIT COUNSELING**

Mapping Your Future (MYF) now offers Grad PLUS loan exit counseling as part of Online Student Loan Counseling (OSLC). Grad PLUS exit counseling provides information and advice on repayment and how to avoid delinquency and default when borrowing a Grad PLUS loan. Current regulations don't require borrowers to complete an exit interview after the student withdraws, graduates, or ceases at least half-time attendance after borrowing a Grad PLUS loan. However, some schools might recommend that borrowers do the counseling.

To experience Grad PLUS loan exit counseling from the student perspective, follow these steps:

1. Go to the Mapping Your Future home page at [mapping-your-future.org](http://mapping-your-future.org).
2. Mouse over "Student Loan Counseling Interview" on the site menu on the left-hand side of the page.
3. Select "Grad PLUS Exit Counseling."
4. Choose Texas as your state.
5. Select the MYF Demo School.
6. If you complete the student form at the end of the session, do not enter your true Social Security Number or other private data.

If you have an existing OSLC account and would like to add Grad PLUS loan exit counseling to your participation categories, contact Beth Ziehmer at [feedback@mapping-your-future.org](mailto:feedback@mapping-your-future.org) or (573) 796-3730. If you do not have an OSLC account, complete the school submission form at [mapping-your-future.org/fao/signup/](http://mapping-your-future.org/fao/signup/) to request participation.

### **MAPPING YOUR FUTURE FAO ACCESS AREA PASSWORDS MAY BE EXPIRING**

Many OSLC users now are required to reset their FAO Access Area passwords every 180 days. MYF staff cannot view passwords, so it is important for OSLC users to use the Forgot Your Password link in the login box to reset the password.

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You may reset your password at any time by accessing the Financial Aid Professionals page at <http://mapping-your-future.org/services/fao.cfm>, scrolling down to the Login Box, and clicking on the Forgot Your Password link. You will be asked to enter your user name and the answer to your security question. You will then be able to reset your password. You also have the opportunity to reset your security question and answer, if necessary. Please note that the security answer and password are both case-sensitive. Following are details relating to password criteria:

- Minimum of seven characters; maximum of ten.
- Cannot be school's OPE-ID.
- Must contain at least one numeric digit.
- Cannot be your last name.
- Cannot be your first name.
- Cannot be the name of the school.
- Can include (but is not required to include) a special character (e.g., @,!).
- Passwords are case-sensitive

If you have access to the school's FAO Access Area, MYF reminds you not to share your login information with other staff members. Staff members who should have access to the FAO Access Area but have not yet applied may complete the additional user request form at [mapping-your-future.org/faoUserRequests/actUser.cfm](http://mapping-your-future.org/faoUserRequests/actUser.cfm). The "super user" will need to log in and approve the additional staff member's access by mousing over the Account Info tab and clicking on "Additional Users." The additional user may have FAO Retrieval access to be able to pull reports or FAO Account access to be able to retrieve records as well as customize the account. Since super users act as gatekeepers for approving other staff members' access, the super user should have procedures in place to deactivate staff members' access when appropriate.

If you have questions about accessing the FAO Access Area, contact Beth Ziehmer at [feedback@mapping-your-future.org](mailto:feedback@mapping-your-future.org) or by phone at 573-796-3730. For general questions, contact Flora Boles at extension 52882 or [bolesf@michigan.gov](mailto:bolesf@michigan.gov).

### **IVR SYSTEM PROVIDES CONVENIENCE TO BORROWERS**

The Integrated Voice Response (IVR) system was introduced in May 2005 to provide defaulted borrowers extended hours for the convenience of obtaining account information, requesting forms or paperwork, and in addition, the ability to make a payment through a "check by phone" or "credit card by phone" transaction.

As borrowers have discovered this convenient payment method, they have increasingly taken advantage of this option. Over the period of October 2005 to October 2006, credit card payments made through the IVR have increased 10.5 percent to 50.5 percent of total "credit card by phone" payments made, and check payments made through the IVR have increased 6.75 percent to 49.25 percent of all "check by phone" type of payments. The ability for borrowers to make these payments on the weekend or in the evening when they sit down to pay their bills, or when they are on the road, eliminates the need to wait on the line to talk to a representative directly, get an envelope and a stamp, or to put it in a mailbox. Total payments made through the IVR now account for about 6.5 percent of the total payments received by MGA when including check and credit card payments taken by an account representative, recurring electronic payments, and paper checks received in the mail.

The IVR system is available to assist callers from 7:30 a.m. until 9:00 p.m. Monday through Friday, and 9:00 a.m. until 1:00 p.m. on Saturdays. Borrowers who want to make a payment via check or credit card by phone through the IVR may call 1-800-MGA-LOAN (1-800-642-5626) and follow the prompts to make a payment.

### **PAYING FOR COLLEGE IN MICHIGAN AVAILABLE ON THE WEB**

The Student Financial Services Bureau is pleased to announce the availability of the *Paying for College in Michigan* publication on its Web site at [michigan.gov/studentaid](http://michigan.gov/studentaid). This publication provides specific information

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about financial aid programs, practices, and procedures for students and parents to follow in the pursuit of paying for a postsecondary education. If you would like to request a paper copy of the publication, please contact Outreach Services at extension 37054 or via email at [sfs@michigan.gov](mailto:sfs@michigan.gov).

Outreach Services would like to know what you think of the publication. If you have any ideas for additional information or have suggestions on how to improve the publication, please contact Stephanie Bogard or Peggy LaFleur. Stephanie may be reached at extension 12101 or via email at [bogards1@michigan.gov](mailto:bogards1@michigan.gov). Peggy may be reached at extension 38319 or via email at [lafleurp@michigan.gov](mailto:lafleurp@michigan.gov).

### **HIGH SCHOOL COUNSELOR VIDEO CONFERENCE**

The 2006 High School Counselor Financial Aid Video Conference was held on November 14, 2006. Preliminary attendance numbers indicate that 709 counselors and Michigan Student Financial Aid Association members participated in the video conference. Final numbers and results of the evaluations will be printed in the January edition of *Educational Loan Notes*.

Copies of the presenter's PowerPoint slides and all other materials provided at the video conference are available on the Student Financial Services Web site at: [www.michigan.gov/studentaid](http://www.michigan.gov/studentaid). Go to the section titled *Prospective Students*, then click on [High School Counselors](#) to view the materials.

For more information regarding the High School Counselor Video Conference or regarding conference materials, please contact Peggy LaFleur at extension 38319 or via e-mail at [lafleurp@michigan.gov](mailto:lafleurp@michigan.gov).

### **CONSOLIDATION LOAN ISSUES**

ED recently released Dear Colleague Letter GEN-06-20 that addresses revised eligibility requirements for loan consolidation through the Federal Family Education Loan Program (FFELP) and Federal Direct Loan Program (FDLP), and reminds FFELP participants of

their obligation to promptly complete and return Loan Verification Certificates. The letter also provides information about implementing restrictions on a borrower's eligibility to consolidate existing Consolidation loans. Attached to this issue of *Educational Loan Notes* is a copy of GEN-06-20 with attachments.

### **THE "ED" PIPELINE**

Following is a description and link to some of the most recent ED correspondence for schools and lenders.

#### **Dear Partner** **November 2006** **GEN-06-19**

This letter encourages public institutions of higher education to enter into agreements with vocational rehabilitation agencies to guide their collaboration and cooperation in providing services to students with disabilities receiving vocational rehabilitation services.

#### **Dear Partner** **December 2006** **GEN-06-20**

The attachments to this letter discuss some of the revised eligibility requirements for consolidation of loans in FFELP and FDLP and reminds FFELP participants of their obligation to promptly complete and return Loan Verification Certificates. It also provides additional information about the implementation of restrictions on a borrower's eligibility to consolidate an existing Consolidation loan.

#### **Dear Partner** **December 2006** **GEN-06-21**

This letter discusses the extension of the Higher Education Act (HEA) and changes made to Title IV student loan programs and the Hispanic Serving Institutions grant program in Title V of the HEA as a result of that legislation.

*(Continued on the next page.)*

**Dear Partner**  
**November 2006**  
**ANN-06-12**

This letter announces that the 2006-07 edition of *FSA COACH for Foreign Schools* is now available at <http://www.ed.gov/offices/OSFAP/fsacoach/foreignschools/index.html>. This self-paced online training course, based on the original *FSA COACH* for U.S. schools, offers foreign school personnel a comprehensive introduction to FFELP management and has been updated to include Higher Education Reauthorization Act (HERA) requirements.

**LENDER LIST UPDATES**

School personnel should record the following action on the "Participating Lender List" dated May 12, 2006. Please make the appropriate change in all sections of the list as needed. If you have any questions regarding this update, please contact Pat Fromm at extension 36076.

To access the most current lender information and eliminate the need for manual updates, use the electronic version of MGA's "[Participating Lender List](#)" available at [mgaloan.com](http://mgaloan.com). Select *Financial Aid Professionals*, and then *FAA Resources*. If you have any questions regarding these updates, please contact Pat Fromm at extension 36076 or via email at [frommp@michigan.gov](mailto:frommp@michigan.gov).

**Joined Referral Program**

**Consumers Choice Credit Union, 825115**, has joined the LaSalle Bank referral loan program. Their address is c/o Nelnet, Inc., P.O. Box 82596, Lincoln, NE 68501-2596. Telephone number: 877-804-3603.

**SCHOOL LIST UPDATES**

The following changes should be recorded by lenders on MGA's "Active Michigan School List" dated July 28, 2006. If you have any questions, please contact Stacy Cardwell at extension 36074 or via email at [cardwells@michigan.gov](mailto:cardwells@michigan.gov).

**Contact Information Update**

**Baker College, Allen Park, 004673-17**

Lisa Harris is the Financial Aid Director. Her telephone number is 313-425-3728, and fax number is 313-425-3777, and email address is [Lisa.harris@baker.edu](mailto:Lisa.harris@baker.edu).

**Institution Name Change**

**National Institute of Technology, Dearborn, 009828-01**

This institution is now referred to as Everest Institute - Dearborn.

**National Institute of Technology, Detroit, 009828-03**

This institution is now referred to as Everest Institute - Detroit.

**National Institute of Technology, Southfield, 009828-00**

This institution is now referred to as Everest Institute.

**CORRECTION**

In the School Updates section of the November issue of *Educational Loan Notes* Thomas Laabs was incorrectly listed as the new Financial Aid Director at Madonna University. Mr. Laabs is a new Financial Aid Counselor. Chris Ziegler is still the Financial Aid Director at Madonna University. We apologize for any inconvenience this may have caused.



**“Q” AND “A”****A Compilation of the Best of *Educational Loan Notes* Questions and Answers from 2006****What if I suspect that the aggregate loan limits on NSLDS are incorrect?**

There may be times that you suspect that the total outstanding principal balance on NSLDS is being reported incorrectly. For example, if your institution keeps track of a student's aggregate total loan amount in-house, you may quickly realize that NSLDS sometimes reports that a student's aggregate loan amount is more than the actual amount disbursed. In many instances, these errors result from consolidation loan misreporting.

While it would be prudent to collect any consolidation loan paperwork that the borrower can provide, it might be best to compare the total outstanding principal balance amount with all of the underlying loan disbursement amounts to distinguish between principal and interest balances. If the school determines that NSLDS figures are in fact incorrect, it would be very important to **keep all documentation showing how the school reached that conclusion**.

For more information see [\*Educational Loan Notes “Q” and “A” February 2006.\*](#)

**Are there certain authorizations that a school must obtain before taking action regarding credit balances?**

Yes, a school must obtain **written** authorization from a borrower to perform the following activities:

- Deliver loan proceeds received via EFT or master check to the student or parent borrowers. Please note that this authorization is usually obtained directly on the Master Promissory Note (MPN).
- Use any loan proceeds to pay for current year charges other than tuition, fees, and/or room and board.
- Deliver any proceeds directly to a borrower's personal bank account.
- Hold a credit balance on behalf of the student or parent borrowers.
- Use any current loan proceeds to pay for minor prior year charges.

For more information see [\*Educational Loan Notes “Q” and “A” March 2006.\*](#)

**If a borrower has several loans in default and the school receives a letter of good standing from the loan holder, can they conclude that all of the loans in question are no longer in default?**

While MGA will not send out a good standing letter unless the borrower has made satisfactory arrangements on all loans in default, it is always best to obtain good standing letters that contain specific loan identification numbers. Those ID numbers can be matched on NSLDS through the loan detail screens to ensure that the borrower has regained eligibility on every loan.

A good standing letter from MGA will always include an ID number which begins with the letters “MI.” In other words, MGA's loan IDs will always look like “MI-xxxxxxxxxx” and schools will easily be able to match those loans with the loans listed on NSLDS.

For more information see [\*Educational Loan Notes “Q” and “A” April 2006.\*](#)

**How long does it take the Central Processing System (CPS) to determine a borrower's citizenship eligibility?**

If CPS cannot immediately match a student, the Department of Homeland Security (DHS) will automatically begin checking whether it has documentation that determines the student's citizenship or residency status. CPS will give DHS up to three days to complete its investigation. A school should wait at least five days but no more than 15 business days for the result of an automated confirmation from CPS.

For more information see [\*Educational Loan Notes “Q” and “A” May 2006.\*](#)

*(Continued on the next page.)*

**Are borrowers who declare bankruptcy and who have active bankruptcy claims eligible for additional loans?**

Yes, a FFELP applicant is eligible for new loan funds despite the filing of a bankruptcy. The Bankruptcy Reform Act of 1994 prevents a school or lender from denying a federal loan or grant to an applicant solely because he or she has filed a bankruptcy petition (*Common Manual*, Section 5.6).

However, if a borrower files a bankruptcy petition on loans that are already in default, the borrower remains ineligible due to the prior default, not due to the bankruptcy. Even though collection activity has ceased, borrowers may still contact the MGA Collections Unit at 1-800-642-5626, extension 60600, to make voluntary payments to regain loan eligibility.

For more information see [\*Educational Loan Notes "Q" and "A" June 2006\*](#).

**What can a school do with credit balances?**

For active students who have a credit balance or withdrawn students with a credit balance, the school may apply the excess funds to any remaining institutional charges that exist for tuition, fees, and on-campus room and board. If there are any excess PLUS loan funds when a student withdraws from attendance, any funds that create a credit balance must be offered to the parent borrower.

For more information see [\*Educational Loan Notes "Q" and "A" July 2006\*](#).

**Where can I obtain copies of ED worksheets, schedules, and tables that can be used to help determine student loan eligibility?**

The majority of these resources can be downloaded from the Information for Financial Aid Professional (IFAP) Library at [www.ifap.ed.gov](http://www.ifap.ed.gov) or by contacting MGA directly for instructions at extension 77009.

The *Common Manual* can be obtained by contacting the Michigan Guaranty Agency via email at [help@mgaloan.com](mailto:help@mgaloan.com) or via phone at extension 39598.

For more information see [\*Educational Loan Notes "Q" and "A" August 2006\*](#).

**What happens when a student transfers from one school to another school, and the schools' loan periods are overlapping? How is the borrower's annual loan limit affected?**

If a student has borrowed for the most recent academic year at another school, the new school must ensure that any new loan amount borrowed, when combined with loans previously borrowed, does not exceed the annual loan limit for his or her grade level at the new school.

Also, the loan period used at the prior school may impact the loan period at the new school. In most cases, eligibility for a new annual loan limit is regained only after 30 weeks have elapsed since the beginning date of the loan period at the prior school.

For more information see [\*Educational Loan Notes "Q" and "A" September 2006\*](#).

**What is necessary for a borrower to submit to obtain a deferment?**

In most cases, the borrower must request a deferment, either verbally or in writing, and provide the lender with documentation necessary to support the borrower's eligibility for the deferment. If at any time during the collection efforts the lender becomes aware of circumstances indicating the borrower may qualify for a deferment, the lender must explain the deferment criteria and make the deferment option available to the borrower.

For more information see [\*Educational Loan Notes "Q" and "A" October 2006\*](#).

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# Calendar of Upcoming Events

## December 2006

25-26 MGA offices closed

## January 2007

1-2 MGA offices closed

9 Mapping Your Future Evening Chat  
7:00-8:00 p.m. General financial aid,  
student loan, and money management  
questions.

15 MGA offices closed

28 - 31 MSFAA Winter Training  
Dearborn, Michigan

## February 2007

11 College Goal Sunday

19 MGA offices closed

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at extension 36944 or via email at [petersonj@michigan.gov](mailto:petersonj@michigan.gov).

## **Rigorous Program of Study**

To be eligible for the Academic Competitiveness (ACG) grant and the National Science and Mathematics Access to Retain Talent (SMART) grant, students must complete a “rigorous program of study” in high school. The college or university the student attends is required to certify this information from documentation provided by the high school counselor, academic advisor, or the student. The “rigorous program of study” must be similar to one of the following options:

- **State Scholars Initiative** - This program of study currently offered in Michigan requires at least:
  - Four years of English;
  - Three years of mathematics (including algebra I, algebra II, and geometry);
  - Three years of lab science (biology, chemistry, or physics);
  - Three and one-half years of social studies; and
  - Two years of a language other than English.
- **A set of courses similar to the State Scholars Initiative** - This program of study requires passing grades in the following courses:
  - Four years of English;
  - Three years of mathematics (including algebra I and a higher level course such as algebra II, geometry, or data analysis and statistics);
  - Three years of science (including at least two courses from biology, chemistry, or physics);
  - Three years of social studies; and
  - One year of a foreign language.
- **Advanced Placement (AP) or International Baccalaureate (IB) Courses and Test Scores** - This program requires a minimum of:
  - Two AP or IB courses in high school and a minimum passing score on the exams for those classes.
  - A score of three or higher on AP exams and four or higher on IB exams.
- **Michigan Merit Standard Curriculum** - This program requires:
  - Four years of English;
  - Four years of mathematics (including algebra I, algebra II, geometry, and one credit in the senior year);
  - Three years of science (including biology, chemistry, or physics, and one additional science credit);
  - Three years of social studies;
  - One year of physical education (guidelines to be developed by the Michigan Department of Education);
  - One year of visual, performing, or applied arts (guidelines to be developed by the Michigan Department of Education); and
  - One online learning experience class.





UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

GEN-06-20

FP-06-16

Subject: Update on Consolidation Loan Issues

Summary: The attachments to this letter discuss some of the revised eligibility requirements for consolidation of loans in the FFEL and Direct Loan programs and reminds FFEL Program participants of their obligation to promptly complete and return Loan Verification Certificates. It also provides additional information on the implementation of restrictions on a borrower's eligibility to consolidate an existing Consolidation Loan.

Dear Colleague:

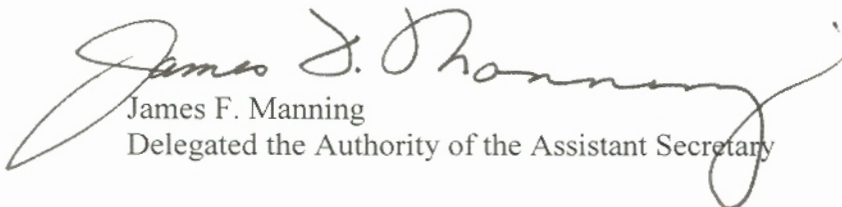
Recent legislative actions have made substantial changes to the eligibility requirements for borrowers consolidating Federal education loans into a Consolidation Loan in the Federal Family Education Loan (FFEL) Program or the William D. Ford Federal Direct Loan (Direct Loan) Program. Specifically, the Higher Education Reconciliation Act of 2005 (Pub. L. 109-171) (HERA) and the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Pub. L. 109-234) amended the Higher Education Act of 1965, as amended (HEA). We have summarized the revised requirements for Consolidation Loans in Attachment A. This information is presented in graphic form in Attachment B.

Loan holders should remember that, under the Department's regulations, they are required to complete and return each Loan Verification Certificate (LVC) submitted by a FFEL lender or by the Direct Loan Program within ten business days of its receipt. More information in about this requirement is included in Attachment C.

Finally, attachment D to this letter provides additional information on the deadlines included in Dear Colleague Letter FP-06-03 related to the implementation of the restrictions on the eligibility of a Consolidation Loan to be included in another Consolidation Loan.

We thank you for your cooperation. If you have any questions on the issues discussed in this letter, please contact Pamela Moran by email at [pamela.moran@ed.gov](mailto:pamela.moran@ed.gov) or by phone at (202) 502-7732.

Sincerely,



James F. Manning  
Delegated the Authority of the Assistant Secretary

1990 K STREET, N.W. WASHINGTON, D.C. 20006

*Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.*

## ATTACHMENT A

### UPDATE ON CONSOLIDATION LOAN ISSUES DCL GEN-06-20 AND FP-06-16

#### ELIGIBILITY OF A LOAN TO BE CONSOLIDATED

Significant changes have been made to the eligibility of student loans for consolidation under the legislation noted in the cover letter to this attachment. We have attached, for your reference and use, a chart (Attachment B) that summarizes the eligibility of loans for consolidation that reflects these changes. The following discussion presents, in greater detail, the eligibility of loans for consolidation.

Under the provisions of the HEA, as amended by the recent legislation, the following are the conditions under which a borrower may include an eligible loan in a FFEL or Direct Loan Consolidation Loan –

#### Eligible Loans

- *FFEL and Direct Loan Stafford and PLUS Loans.* Subsidized and unsubsidized Stafford Loans and PLUS Loans, with or without other loans that are eligible for consolidation (e.g.; Perkins Loans or Health Professions Loans), may be consolidated into either the FFEL or Direct Loan programs.

However, a borrower may consolidate a FFEL Program loan into a Direct Consolidation Loan without including at least one Direct Loan if the borrower certifies that he or she is unable to obtain a FFEL Consolidation Loan or is unable to obtain a FFEL Consolidation Loan with income-sensitive repayment terms that are satisfactory to the borrower. The borrower's signature on the Direct Consolidation Loan Application/Promissory Note, which includes this certification, is sufficient for the purpose of meeting this requirement. A FFEL holder of a loan that a borrower wishes to consolidate into the Direct Loan Program may not question that certification.

- *Perkins Loans or Health Professions Loans.* Perkins Loans or Health Professions Loans may be consolidated into a FFEL Consolidation Loan without the inclusion of a FFEL or a Direct Loan program loan. However, under the current Direct Loan Program regulations, Perkins Loans and Health Professions Loans may be consolidated into a Direct Consolidation Loan only if at least one FFEL or Direct Loan program loan is included in the consolidation.

#### Status of Loans

- *In-school status.* A borrower who is in an in-school period on a loan cannot include that loan in a Consolidation Loan and a borrower may no longer request to be converted from an in-school status on a loan to repayment status to include that loan in a Consolidation Loan.
- *Grace or Repayment Status.* A borrower must be in either a grace period or in a repayment period on an eligible loan to include that loan in either a FFEL or Direct Loan Consolidation Loan. A borrower is considered to be in repayment on a loan if the borrower is making

## ATTACHMENT A

### Update on Consolidation Loan Issues

#### Page 2

payments as required under the repayment plan established with the lender, is in forbearance or deferment (including an in-school deferment), or is delinquent or in default on the loan.

Defaulted loans may be included by a borrower in a Consolidation Loan only if the borrower has made satisfactory repayment arrangements with the holder of the defaulted loan or if the borrower agrees to repay the Consolidation Loan under the income-sensitive repayment plan in the FFEL Program or the income contingent repayment plan in the Direct Loan Program.

- *Judgment or wage garnishment.* Loans on which a judgment has been entered against the borrower or loans that are subject to collection by wage garnishment cannot be included in a Consolidation Loan.

#### Consolidation of a Consolidation Loan

A borrower may not include an existing Consolidation Loan in a new Consolidation Loan except as provided below –

- *Both Programs.* A borrower may consolidate an existing FFEL or Direct Loan Consolidation Loan only if the borrower includes at least one other eligible loan in the consolidation. The other eligible loan may be another Consolidation Loan. If the existing Consolidation Loan is in default, the borrower must also either make satisfactory repayment arrangements on the defaulted loan, or must agree to repay the new Consolidation Loan under the income-sensitive (for the FFEL Program) or income contingent (for the Direct Loan Program) repayment plan.
- *Direct Loan Program Only.* A borrower may consolidate a single FFEL Consolidation Loan into a Direct Consolidation Loan for the purpose of obtaining an income contingent repayment (ICR) plan, without including any other loans, if –
  - *Delinquent.* The borrower is delinquent on repayment of the FFEL Consolidation Loan and the FFEL lender has submitted a request for default aversion assistance to the guaranty agency, in accordance with 34 C.F.R. § 682.411(i).
  - *Defaulted.* The borrower is in default on the FFEL Consolidation Loan, regardless of whether the borrower has made satisfactory repayment arrangements on the defaulted FFEL Consolidation Loan. In this situation, the borrower would qualify because the lender submitted a request for default aversion assistance during the delinquency period.
  - *Bankruptcy.* A single FFEL Consolidation Loan held by a guaranty agency as a result of a bankruptcy claim may be consolidated into a Direct Consolidation Loan. A borrower who has filed an adversary complaint in a bankruptcy proceeding seeking to have the FFEL Consolidation Loan discharged has shown that he or she does not intend to repay the debt. In a bankruptcy situation, the holder of the FFEL Consolidation Loan files a claim with the guaranty agency rather than seek default aversion assistance on the loan. A request for default aversion assistance cannot be filed in this situation. Therefore, a

## ATTACHMENT A

### Update on Consolidation Loan Issues

Page 3

single FFEL Consolidation Loan held by a guaranty agency as a result of a bankruptcy claim may be consolidated into a Direct Consolidation Loan even though default aversion assistance was not requested.

#### Number of Loans

There is no minimum number of loans that may be included in a Consolidation Loan. A FFEL or Direct Loan Consolidation Loan may include just one eligible loan. However, as discussed earlier, a borrower may not consolidate a Perkins or Health Professions loan into the Direct Loan Program without including at least one FFEL or Direct Loan.



**CONSOLIDATION LOAN MATRIX**  
**October 2006**

Consolidation Loan Scenarios	Consolidate into...		Condition or Limitation
	FFEL Any Lender	Direct Loan	
<b>All Loans</b>			
<b>Loan in Grace or Repayment Status</b>  Repayment status includes loans in deferment and forbearance and loans that are delinquent or in default.	Yes	Yes	May consolidate one or more loans  If loan is in default, only if borrower has made satisfactory repayment arrangements with the holder or agrees to repay the consolidation loan under an income sensitive (FFEL) or income contingent repayment (DL) plan.
Loan in an in-school status	No	No	Borrower may not request to be converted from an in-school status on a loan to repayment status.
Loan not fully disbursed	No	No	A loan is not considered to be in repayment until it is fully disbursed.
<b>Consolidation Loans</b>			
Consolidation loan with one or more additional loans	Yes	Yes	Additional loan may be another consolidation loan.
Single Consolidation loan only	No	Yes	Only for a FFEL Consolidation Loan that is delinquent, in default, or the borrower has filed an adversary action in a bankruptcy proceeding for discharge of the loan.
<b>No Direct Loans or FFEL Loans</b>			
Perkins and/or Health Professions loans only	Yes	No	Direct Loan regulations do not allow consolidation unless there is at least one FFEL or Direct Loan included.

## **ATTACHMENT C**

### **UPDATE ON CONSOLIDATION LOAN ISSUES DCL GEN-06-20 AND FP-06-16**

#### **COMPLETION OF A LOAN VERIFICATION CERTIFICATE (LVC)**

##### General

The Department's regulations at 34 C.F.R. §§ 682.209(j) and 685.220(f)(1)(i), require a loan holder to complete and return LVCs (or provide the consolidating lender with a reason why the holder cannot complete the LVC) within 10 business days of receipt of the LVC. If an LVC is sent to a servicer that performs billing and/or servicing functions on behalf of a loan holder for the loan(s) for which LVC information is being requested, the servicer is the holder's agent for this purpose. Thus, the LVC must be completed and returned within 10 business days from the date it is received by the loan holder or by a servicer acting on behalf of the loan holder.

A loan holder or servicer that fails to comply with the requirement to complete and return an LVC within 10 business days of its receipt could be subject to fines or other sanctions in accordance with 34 C.F.R. Part 682, Subpart G. In addition, the Department will consider the loan holder's or servicer's record of compliance with this requirement when determining eligibility for designation as an exceptional performer under Section 428I of the HEA.

##### Not Providing LVC Information

The regulations allow a loan holder that cannot, because of certain limited reasons, provide the completed LVC within the 10 business-day period to explain in writing to the intended consolidating lender, within the same 10 business-day period, why it cannot do so. One such reason is the occurrence of a technical problem, such as a computer malfunction, that prevents the holder or servicer from providing the information within the 10 business-day period. In this situation, in addition to providing the written explanation within the 10-day timeframe, the loan holder must provide the required information as soon as the technical problem is resolved. It must do so without awaiting an additional request from the consolidating lender.

The only other reasons a loan holder may have for not completing and returning the requested LVC (and instead providing a written explanation as to why it cannot do so) are:

- The loan holder never held the loan;
- The loan holder held the loan but has assigned it to a guaranty agency;
- The loan holder sold the loan;
- The loan the borrower wishes to consolidate is more than 270 days delinquent and a default claim has been submitted to a guaranty agency;
- The loan has not been fully disbursed or the borrower is not in repayment status;
- A judgment has been entered against the borrower on the loan that the borrower wants to consolidate; or
- The loan the borrower wishes to consolidate is subject to collection by wage garnishment.

## ATTACHMENT C

### Update on Consolidation Loan Issues

Page 2

#### A Borrower's Change of Consolidating Lender

A loan holder that receives an LVC may contact the borrower to offer the borrower a Consolidation Loan. However, the loan holder cannot delay beyond the 10 business-day deadline its completion of the LVC while it contacts or waits to hear from the borrower. A borrower can cancel a pending Consolidation Loan application only by directly notifying the lender to which the application was submitted that the application is withdrawn. A borrower's statement to a loan holder, whether oral or written, that the borrower wishes to cancel a Consolidation Loan application currently pending with a different lender does not constitute a cancellation of the Consolidation Loan application then pending with that other lender. The holding lender may not delay completing and submitting the LVC while waiting for the borrower to withdraw a prior application.

#### Repeal of the Single Holder Rule

The Appropriations Act eliminated the single holder rule for Consolidation Loan applications received by the consolidating lender on or after June 15, 2006 (the date of enactment of the Appropriations Act). In general, the single holder rule provided that if all of a borrower's FFEL loans were held by one FFEL holder, the borrower was required to request a Consolidation Loan from that holder. Now, a FFEL Consolidation Loan may be made by any eligible FFEL lender without regard to who holds the loans to be consolidated.

Since the enactment of the Appropriations Act, we have allowed FFEL loan holders to request documentation from the consolidating lender that the borrower's application was received on or after June 15, 2006 before completing the LVC when the loan holder believed that it was the single holder of the borrower's FFEL loans. However, now that more than five months have passed. Such requests are now unnecessary and only delay the processing of a borrower's Consolidation Loan application. Therefore, effective on the date of this letter, a loan holder may not request such documentation or otherwise delay responding to an LVC based on the single holder rule that was in effect before June 15, 2006.

The consolidating lender is responsible for ensuring that it does not make a Consolidation Loan based upon an application received before June 15, 2006, from a borrower who would have been ineligible for the requested Consolidation Loan from that lender because of the single holder rule.

Any FFEL Consolidation Loan made in violation of the single holder rule, as in effect for Consolidation Loan applications received prior to June 15, 2006, will be subject to loss of reinsurance and other FFEL Program benefits.

## ATTACHMENT C

### Update on Consolidation Loan Issues

Page 3

#### Consolidation of an Existing Consolidation Loan

As discussed earlier in this letter, the HERA eliminated the ability of a borrower to consolidate a single Consolidation Loan, except for the special circumstances in which a single FFEL Consolidation Loan can be consolidated into the Direct Loan Program.

It is the responsibility of the FFEL consolidating lender (not the current holder) to ensure that it does not make a Consolidation Loan consisting of only a single FFEL or Direct Loan Consolidation Loan. Therefore, a holder of a FFEL Consolidation Loan that receives an LVC from another FFEL lender or from the Direct Loan Program must promptly complete and return the LVC even if it believes that the Consolidation Loan is not eligible for consolidation because it is the only loan the borrower wishes to consolidate. We will monitor loan activity through the National Student Loan Data System (NSLDS) to ensure that there are no FFEL Consolidation Loans that consist only of a single FFEL or Direct Loan Consolidation Loan. If we find a violation of this restriction, the new FFEL Consolidation Loan will be subject to loss of reinsurance and other FFEL Program benefits.

#### Notification of Loan Holder Non-Compliance

Lenders that do not receive loan certification information, or a response from the loan holder informing them why that information is not being provided should inform the appropriate Federal Student Aid regional Financial Partners Eligibility and Oversight staff, so that the Department can follow up with the loan holder.



## **ATTACHMENT D**

### **UPDATE ON CONSOLIDATION LOAN ISSUES DCL GEN-06-20 AND FP-06-16**

#### **DIRECT CONSOLIDATION LOAN APPLICATIONS**

Dear Colleague Letter FP-06-03, dated March 17, 2006, included information related to the HERA changes that limited the conditions under which a borrower may include an existing Consolidation Loan in a new Consolidation Loan. In that letter, we specifically addressed whether borrowers could consolidate an existing FFEL Consolidation Loan into the Direct Loan Program and then consolidate the new Direct Consolidation Loan into a FFEL Consolidation Loan (the “two-step” process). To provide sufficient time for all of the activities that must be completed in the “two-step” process to be completed by June 30, 2006, the letter stated that we would –

... continue to process LVCs received from FFEL lenders through June 30, 2006, if the Direct Consolidation Loan that is the subject of the LVC resulted from a Direct Consolidation Loan application received by the Department on or before March 31, 2006.

We considered the March 31 deadline to have been met if the Direct Loan Program had received a substantially complete Direct Consolidation Loan application by that date. After receiving the application, we needed to request and receive a completed LVC from the FFEL lender before the Direct Consolidation Loan could be made. As of mid-August, there were a number of Direct Consolidation Loan applications that had been submitted for consolidation of an existing FFEL Consolidation Loan by March 31, 2006, but had not been funded either because the borrower did not respond to our requests for additional information or because we did not receive the LVC that we requested from the holder of the FFEL Consolidation Loan.

The Direct Loan Program has stopped funding Consolidation Loan applications when the only loan to be consolidated was a single FFEL Consolidation Loan (unless the loan was delinquent and had been submitted for default aversion assistance, was in default or the borrower had filed a bankruptcy discharge petition on the loan), regardless of the date of receipt of the application. Since we will not make a Direct Consolidation Loan based on such applications, we returned or will return to the FFEL lender any LVCs received for those applicants.

We understand that some FFEL lenders, after receiving an LVC for the new Direct Consolidation Loan as the first step in the two-step process, may have completed the second step after June 30, 2006. The Department will not deny reinsurance or other federal benefits on FFEL Consolidation Loans made under these circumstances on or after July 1, 2006 and prior to the date of this letter. Effective with the date of this letter, a FFEL lender may not make a Consolidation Loan to a borrower with only a FFEL or Direct Consolidation Loan even if the Consolidation Loan application was received by the lender prior to July 1, 2006.